

October 15, 2009  
Pre-Proposal Conference  
Product Pricing & SKU Optimization

Participants have until October 27<sup>th</sup> to ask questions and should e-mail George.  
Answers will be provided on our web-site by November 10<sup>th</sup>.

1. Q: Do you have consumer and shopper insights beyond what's included in the RFP?  
A: **Yes, but it is somewhat out dated. The RFP includes the most recent survey data.**
  
2. Q: Are there additional objectives for the assortment project, beyond what's already listed (e.g., to eliminate OOS)?  
A: **Important component – 50% of OOS results in loss sales, if you can identify other objectives to improve business please do so. This RFP is a guide to the minimum requirements not the maximum.**
  
3. Q: Would it be acceptable to vary everyday prices by store?  
A: **Pricing by store is not something that can be done currently with the system that is used, not on a store to store basis. The practice of doing this has been used with caution and concern.**
  
4. Q: Are there any milestones related to the project, other than the RFP timeline?  
A: **No, but respondents are encourage to point out any milestones they believe are important.**
  
5. Q: Is it possible to submit a single proposal for both projects to leverage economies of scale across the projects?  
A: **Yes.**
  
6. Q: In what section of the proposal format specified in Part III is the respondent to submit its proposed price?  
A: **Refer to Part III and include in Work Plan.**
  
7. Q: Do you have a length of time that you expect this process to take place?  
A: **We would like to see everything start materializing before the beginning of next fiscal year.**
  
8. Q: How do you want the responses?  
A: **Make your responses actionable and realistic, validate where the right and recommend course of correction where needed.**
  
9. Q: Can suppliers bid providing for only one portion/category of the RFP, only bid on spirits or wine  
A: **Yes, they can bid on wines and spirits separately.**

10. Q: If we have two different suppliers, one for wines and one for spirits, do you expect re-sets to be done at the same time or can they be done on their own separate timetable?  
A: **They will not be required to use the same timetable. It would be a lot less disruptive in our stores if they were done at separate times.**
11. Q: Will materials be available from the original consulting project for us to review?  
A: **Yes – whatever documents were made public will be posted on the website and e-mailed to all the attendants. Attachment A**
12. Q: Any objection to using different sources of consumer data research?  
A: **No, use whatever data you have or want, but we would caution you that some national consumer data lacks reliance to control states in general and NH in particular.**
13. Q: Would your business partner have access to internal data, such as planograms currently in use?  
A: **Yes – Selected parties will be a partner and will be given any and all information necessary.**
14. Q: Will there be a dedicated person that the consultant can deal with on a day to day basis?  
A: **Yes. We would have someone such as John Bunnell would probably be the dedicated contact person and who could also direct you to the appropriate staff member at any given time.**
15. Q: How much work has been done up front with adjusting pricing on a store to store basis?  
A: **We have done some pilot split pricing, as well as multi-bottle purchase pricing strategies.**
16. Q: Will your SKU partner have involvement in the implementation of the new item process as far as shelf space and placement within current listings?  
A: **Yes, but any insights that can be provided will be looked at. If there is evidence that they can help they would if insightful and helpful and impact profitability. Important because what is coming in and the space it uses impacts something else.**
17. Q: How will you measure and enforce shelf set compliance?  
A: **The commission will manage the compliance of shelf management.**
18. Q: Do you have stores grouped in clusters?  
A: **Yes, we have clusters for wine and spirits; we would be receptive to any recommendations for change.**
19. Q: Can the current store clusters be provided to us?  
A: **Yes. Attachment B**

# **Optimizing the value of New Hampshire's state-run liquor stores**



New Hampshire State Liquor Commission

Final Report

This report describes the process followed to analyze the potential improvement opportunities available in the State's Liquor Commission operations, an estimate of the improvement potential and suggested focus areas for the State of New Hampshire to pursue. This is a summary of the detailed charts that are attached.

## **PROCESS**

The State of New Hampshire retained McKinsey and Company, a global management consulting firm, on a pro-bono basis to provide a fact-based analysis for this report. An assessment of the opportunities to improve the Liquor Commission's operations and hence the contributions that it makes to the State's General Fund was undertaken. The assessment reflects work with Commissioner Mark Bodi and his staff, as well as in-person visits to the State's liquor stores, interviews with store management and staff, and selective analysis of sales and operating performance data. The analysis assessed only a subset of the Commission's stores and data and it is assumed that the sample selected is representative of the entire network and overall performance.

## **SUGGESTED FOCUS AREAS**

Our recommendation is for the New Hampshire Liquor Commission should focus their actions on 3 critical areas: 1) expanding the mandate of the Commission's stores to sell other related products, 2) optimizing pricing, and 3) developing the ideal retail network configuration.

### ***1) Expand the range of products that the Liquor Commission can sell in its stores***

The experience of Ontario's Liquor Control Board suggests that the Liquor Commission could increase its contributions to the State's General Fund if it sold liquor related accessories and other goods at its retail locations.

### ***2) Complete the research and analysis required to optimize price***

On the basis of the preliminary analysis optimizing price across the network of stores could deliver a significant increase in annual profits. The Commission currently does not have the skills or resources to complete the detailed analysis and more research will be required. Given the significant opportunity and the ability to deliver impact in a 3 – 6 month period the State needs to immediately begin more detailed price planning. The State could receive a positive return on

this research investment within a few months. Please refer to pages 4 and 5 for more details.

### ***3) Explore alternate business models and define the optimal retail network***

Preliminary analysis suggests that 14 – 16 additional retail outlets could improve sales and deliver incremental profits. Converting a number of stores from State to Agency ownership and operation could save costs and further improve profits. It is advisable to complete this analysis in parallel with the pricing optimization work as any changes made will alter the store economics. As with pricing, the Commission currently does not have the skills or resources to tackle this opportunity. The State would have to find the means to do this more detailed assessment.

# The NHLC has the potential to increase its margins significantly through pricing optimization

 Low risk  
 High risk

	<b>Strategy</b>	<b>Potential Impact</b>
<b>Reduce reliance on items on discount</b>	Reduce the number of discounts on offer by 30-50% of current discount volume	\$2-4m
<b>Reconstruct the price architecture for New Hampshire Liquor</b>	<b>EITHER:</b> Raise prices of non-"known-value-item" SKUs to the lowest price on offer in any neighboring state	\$9-12m
	<b>OR:</b>	
	Segment stores and offer differential pricing: classify stores less than 25 miles from the border as "outlet stores," and provide the lowest price on offer in any neighboring state; for stores located <i>more</i> than 25 miles away from the border, raise prices to the average price in neighboring states	\$10-15m
		<b>~\$10-15m</b>

# Operational improvements could deliver ~\$5-10m a year in incremental run-rate cash flows

Lever	Observations	Recommendations	Potential Impact	Effect on 2009 cash flow \$M
<b>1. Sales Management</b>	<ul style="list-style-type: none"> <li>NHLC's best bet to compete with off-premise retailers and cross-border competitors is by being famous for low prices</li> <li>That said, many stores' SKU placement muddies value perception, and limited staff knowledge undermines stores' claims to expertise in the business</li> </ul>	<ul style="list-style-type: none"> <li>Provide detailed product information (e.g., taste, pairings) to all store employees to enhance knowledge</li> <li>Spot-check customer service through store visits</li> <li>Launch SKU placement training</li> </ul>	<ul style="list-style-type: none"> <li>+5-7% of total retail sales</li> </ul>	3 – 7
<b>2. Lean Retailing</b>	<ul style="list-style-type: none"> <li>Many stores' back rooms and staging areas are cluttered and crowded, adding waste and extra work</li> <li>Front-of-store organization varies tremendously</li> </ul>	<ul style="list-style-type: none"> <li>Create "best practice" back room, staging area, and front-of-store playbooks</li> <li>Launch "lean retailing" road show around state to introduce playbooks and best practices</li> </ul>	<ul style="list-style-type: none"> <li>-5-15% spend on store labor thanks to operational efficiencies</li> </ul>	1 – 3
<b>3. Supply Chain Management</b>	<ul style="list-style-type: none"> <li>The complexity of the network creates a lot of waste, both in-store and upwards in the supply chain                             <ul style="list-style-type: none"> <li>Once-a-week Friday deliveries for stores whose traffic is highest on Fridays</li> </ul> </li> <li>This is compounded by the high number of SKUs in every store, even stores with low volume</li> </ul>	<ul style="list-style-type: none"> <li>Optimize distribution schedule based on high/low customer traffic patterns in stores</li> <li>Consider setting maximum SKU levels in stores below a certain size</li> </ul>	<ul style="list-style-type: none"> <li>-10-20% reduction in inventories</li> <li>Out of stocks: 10-20%</li> </ul>	<ul style="list-style-type: none"> <li>2.5 – 5.0 in the first year</li> <li>Counted as zero, but generally 50% of OOS translates into lost sales</li> </ul>

# NHLC

## Proposed List of Clusters

### June-09

#### 78 Stores

Changes Highlighted

#### **Cluster 1 (8)**

34 Salem  
 38 Portsmouth Circle  
 50 Nashua  
 66 Hooksett-93N  
 67 Hooksett-93S  
 69 Nashua  
 73 Hampton-95S  
 76 Hampton-95N

#### **Cluster 2 (16)**

1 Concord  
 4 Hooksett  
 6 Portsmouth  
 15 Keene  
 21 Peterboro  
 22 Brookline  
 23 Conway  
 25 Stratham  
 33 Manchester  
 42 Meredith  
 49 Plaistow  
 54 Glen  
 55 Bedford  
 60 W. Lebanon  
 64 New London  
 68 N. Hampton

#### **Cluster 3 (19)**

##### **Store Specific (7):**

8 Claremont  
 10 Manchester  
 11 Lebanon  
 20 Derry  
 32 Nashua  
 28 Seabrook Beach  
 39 Wolfeboro

##### **Small (4):**

19 Plymouth  
 31 Manchester  
 47 N. Woodstock  
 74 Londonderry

##### **Large (8):**

7 Littleton  
 9 Dover  
 30 Milford  
 41 Seabrook  
 51 Pelham  
 56 Gilford  
 71 Lee  
 72 Concord

#### **Cluster 4 (20)**

##### **Store Specific (4):**

2 W. Chesterfield  
 12 Center Harbor  
 27 Nashua  
 46 Ashland  
 78 Hampstead

##### **Small (12):**

24 Newport  
 37 Lancaster  
 40 Walpole  
 44 Bristol  
 53 Hudson  
 57 Ossipee  
 58 Goffstown  
 59 Merrimack  
 62 Raymond  
 63 Winchester  
 65 Campton  
 75 Belmont

##### **Large (4):**

14 Rochester  
 48 Hinsdale  
 70 Swanzey  
 77 Rindge

#### **Cluster 5 (9)**

3 Manchester  
 5 Berlin  
 13 Somersworth  
 17 Franklin  
 18 Colebrook  
 36 Jaffrey  
 43 Farmington  
 52 Gorham  
 61 Fitzwilliam

#### **Cluster 6 (5)**

16 Woodsville  
 26 Groveton  
 29 Whitefield  
 35 Hillsboro  
 45 Pittsfield

Expanded Wine & Specialty Store  
 Expanded Wine  
 Specialty